Answers

1 Andreas and Koulla Koutsodaxtylos

(a) Andreas – Special defence contribution (SDC) for the tax year 2013

	€	*Marks*
Gross dividend from Successful Legal Services Ltd	500	
SDC liability (20% x €500)	100	½
Less: SDC deducted at source	(100)	½
SDC payable	0	
Gross interest from deposit in Bank of Cyprus	235	
SDC liability (30% x €235)	71	½
Less: SDC deducted at source	(71)	½
SDC payable	0	
Net interest from OELMEK Coop deposit account €2.520		
Gross up: €2.520 x 100/70 = 3.600 x ½ (jointly owned account)	1.800	1
SDC liability (30% x €1.800)	540	½
Less: SDC deducted at source	(540)	½
SDC payable	0	
Nordian properties – rental income (€16.040 + €1.460) x ½ (jointly owned)	8.750	1
Less: 25% deduction	(2.188)	½
Taxable	6.562	
SDC liability at 3%	197	½
Less: Double tax relief for Nordian tax (€1.640, but restricted to SDC)	(197)	1
	0	
		7

			Marks
(b) Andreas – Income tax computation for the tax year 2013			
	€	€	
Employment			
Salary income		40.000	½
Employer's contribution to an approved provident fund (not taxable)		0	½
Car benefit (€12.750 x 70%)		8.925	1
		48.925	
Less: Deductions from gross income			
Donations to approved charities	(350)		1
Subscription to his favourite football club	0		1
Subscription to a professional body	(180)		1
Seminar related to his job	(400)	(930)	1
Net employment income		47.995	
Add: Other sources of income			
Dividends from Successful Legal Services Ltd (exempt)		0	½
Interest from deposit in Bank of Cyprus (exempt)		0	½
Interest from OELMEK Coop deposit account (exempt)		0	½
Nordian properties – rental income (€16.040 + €1.460) x ½	8.750		1½
Less: 20% deduction on rental income (€8.750 x 20%)	(1.750)	7.000	1
Net income		54.995	
Less: Personal allowances			
Social insurance contributions payable (€40.000 x 6,8%)	(2.720)		1
Provident fund (10% x €40.000)	(4.000)		1
	(6.720)		
Restricted to 1/6th of net income (1/6 x €54.995 = €9.166)		(6.720)	½
Taxable income		48.275	
Tax liability			
€0–€19.500 at 0%		0	
€19.501–€28.000 at 20%		1.700	
€28.001–€36.300 at 25%		2.075	
€36.301–€48.275 at 30%		3.592	
Total tax liability		7.367	½
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(c) Koulla – Taxable income for the tax year 2013			
	€	€	
Pension		26.000	1
Add: Other sources of income			
Net dividends from shares held in a family company (exempt)		0	½
Interest from OELMEK Coop deposit account (exempt)		0	½
Nordian properties – rental income (as per part (b))	8.750		½
Less: 20% deduction (as per part (b))	(1.750)	7.000	½
Taxable income		33.000	
			3

(d) (i) As from 1 January 2012, a director who maintains a debit balance with his company is deemed to have a taxable benefit. 1

This benefit must be calculated on a monthly basis, at a rate of 9% per annum on the debit balance of each month. 1

This benefit is included in the total taxable income of that person, and the relevant income tax which arises should be withheld by the company through the Pay-as-You-Earn (PAYE) system. 2

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(ii) The claim for allowances (Form IR59) must be completed by the employee and given to the employer at the beginning of the tax year, or on the commencement of employment during the year. 1

Marks

(iii) Theodoros – Total taxable income for 2013

	€	
Salary	70.000	½
9% Benefit on director's debit balance ((9% – 3%) x €300.000))	18.000	1½
	88.000	
		2
		30

2 (a) Unpleasant Ltd

(i) Loss relief

Capital allowances form part of the loss to be carried forward, if not relieved. 1

No part of a tax loss created by reason of charitable donations can be carried forward. 1

No carry-back of losses is allowed. 1

Loss relief must be set off against the first available profits of the following years. 1

A loss claim must be for the whole loss, no part loss claim is allowed. 1

A loss claim must be made within five years from the end of the tax year in which the loss was incurred. 1

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(ii) Branch profits

In accordance with Cyprus tax law, the profits from a foreign permanent establishment are exempt from Cyprus corporation tax, unless:

– the foreign tax burden is substantially lower than the Cyprus tax burden, and
– the branch engages directly or indirectly to the extent of more than 50% in investing activities. 1

As only the first condition is satisfied, the branch profit is not subject to Cyprus corporation tax. 1

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(iii) Corporation tax computations for the tax years ended 31 December 2011, 2012 and 2013

	Tax year 2011		Tax year 2012		Tax year 2013		
	€	€	€	€	€	€	
Tax adjusted profit/(loss)		(30.000)		(5.000)		25.000	½ + ½ + ½
Branch profit						0	½
Rental income from land property	10.000						½
Less: 20% deduction (not given for land)	0						½
		10.000					½
Capital gain (exempt)						0	½
Interest (exempt)		0					½
Dividends (exempt)						0	½
		(20.000)		(5.000)		25.000	
Less: Donations to approved charities		1.000					1
Less: Tax loss brought forward from 2011 and 2012						(24.000)	1
Tax loss carried forward		(19.000)		(5.000)			½ + ½
Taxable income						1.000	
							8

Marks

(b) Electra Ltd

	€	Marks
Accounting profit (per question) before corporation tax	325.000	½
Add:		
Additional depreciation due to revaluation of assets (€1.000.000 – €300.000) x 3%	21.000	1
Unrealised loss – valuation of securities	11.200	1
Transfer to a non-legal reserve	20.000	1
Less:		
Corporation tax		
Corporation tax paid for the year 2011	(45.000)	½
Capital gains tax paid (20% x €120.000)	(24.000)	1
Accounting profit subject to deemed distribution provisions	308.200	
Deemed distribution on 31 December 2013 (70% x €308.200)	215.740	1
Less: Dividend distribution made 20 June 2013	(40.000)	1
Deemed dividend subject to special defence contribution (SDC)	175.740	
SDC liability:		
Cyprus tax resident shareholder (€175.740 x 40%) x 20%	14.059	1
Non-Cyprus resident shareholder	0	1
	14.059	
		9
		25

Tutorial note: *As Electra Ltd is a Cyprus tax-resident company, the deemed dividend distribution provisions apply with respect to the 2011 profit. However, the deemed dividend provisions are not applicable to non-Cyprus tax resident shareholders.*

3 (a) Zeus Ltd

(i) Tax treatment of disposal of Era Ltd shares

– The disposal of shares in a private company, the property of which includes immovable property situated in Cyprus, is subject to capital gains tax in Cyprus. 1

– Zeus Ltd will be subject to capital gains tax on the sale of the Era Ltd shares by reference to the immovable property situated in Cyprus held by Era Ltd. 1

– The immovable property situated in the UK is outside the scope of Cyprus capital gains tax since it is not situated in Cyprus. 1

3

(ii) Chargeable gain and tax payable on the sale of the Era Ltd shares

	€	€	Marks
Disposal proceeds – January 2013 (market value of the immovable property situated in Cyprus: 50% x €450.000)		225.000	1
Less: Acquisition cost			
Cost of the property – June 2008 (acquired after 1 January 1980, therefore, actual cost used: €150.000 x 50%)	(75.000)		1½
Add: Indexation allowance (€75.000 x (120,26/110,51)) – 75.000	(6.617)		1
		(81.617)	
Chargeable gain		143.383	
Capital gains tax liability at 20%		28.677	½
Due date of payment: 31 January 2013 (within one month from the date of disposal).			1
			5

			Marks
(b) Aphrodite			
(i) Aphrodite is entitled to claim the residential dwelling exemption because:			
– the sale of the apartment is her first disposal of a dwelling house; and			
– she has been living in the apartment for at least five years.			2
(ii) Chargeable gain and capital gains tax payable on the sale of the apartment			
	€	€	
Disposal proceeds – January 2013		183.000	½
Less: Acquisition cost – May 2005			
Cost of the apartment			
(acquired after 1 January 1980 therefore actual cost used)	(60.000)		1
Add: Indexation allowance			
(€60.000 x (120,26/99,62) – €60.000)	(12.431)		1
		(72.431)	
Less: Incidental expenses			
Advertising cost	(500)		½
Commission paid to an approved estate agent	(3.000)		½
		(3.500)	
Capital gain		107.069	
Less:			
Principal dwelling house lifetime exemption		(85.430)	1
Chargeable gain		21.639	
Capital gains tax liability at 20%		4.328	½
			5

(c) Hermes – Chargeable gain on the sale of the shop			
	€	€	
Disposal proceeds – December 2012		210.000	½
Less: Acquisition cost – June 2004			
Cost of the shop (30.000 + 20.000)			
(acquired after 1 January 1980 therefore actual cost used)	(50.000)		1
Add: Indexation allowance			
(€50.000 x (120,36/97.82) – €50.000)	(11.521)		1
		(61.521)	
Add: Capital allowances claimed (2004 to 2011: 8 years)			
Original cost: €30.000 x 3% x 8 years		7.200	2
Capital gain		155.679	
Less: General life-time exemption (already used)		0	½
Chargeable gain		155.679	
			5
			20

Tutorial note: *The disposal of a letting property by an individual does not create any balancing statement.*

4 Odysseas, Penelope and Athena

(a) Allocation of partnership profits or losses

The allocation of the chargeable profit or allowable loss of a partnership to the individual partners should be made:

– in accordance with the profit sharing provisions, as they have been provided in the partnership agreement; and 1
– if no agreement exists, in equal shares (under the law). 1

Any salaries or interest on capital to which partners are entitled are first allocated to them and the balance is then allocated according to the profit sharing ratio. 1

3

						Marks

(b) Partners' shares of the trading profit for the year ended 31 December 2013

	Odysseas	Penelope	Athena	Total	
	€	€	€	€	
Period 1 January 2013 to 31 March 2013					
(3 months: 3/12 x €100.000)				25.000	1
Salaries:					
Odysseas (€10.000 x 3/12)	2.500			(2.500)	½
Athena (€3.000 x 3/12)			750	(750)	½
Interest on fixed capital:					
Odysseas (€10.000 x 5% x 3/12)	125			(125)	½
Penelope (€15.000 x 5% x 3/12)		188		(188)	½
Athena (€25.000 x 5% x 3/12)			313	(313)	½
Profit balance				21.124	
Profit sharing ratio (PSR) (1:2:2)	4.225	8.450	8.449	(21.124)	1½
Period 1 April 2013 to 31 December 2013					
(9 months: 9/12 x €100.000)				75.000	1
Salaries:					
Odysseas (€15.000 x 9/12)	11.250			(11.250)	½
Penelope (€15.000 x 9/12)		11.250		(11.250)	½
Athena (€15.000 x 9/12)			11.250	(11.250)	½
Interest on fixed capital:					
Odysseas (€10.000 x 10% x 9/12)	750			(750)	½
Penelope (€15.000 x 10% x 9/12)		1.125		(1.125)	½
Athena (€25.000 x 10% x 9/12)			1.875	(1.875)	½
Profit balance				37.500	
PSR (1:1:1)	12.500	12.500	12.500	(37.500)	1
Partnership profit share	31.350	33.513	35.137	100.000	
					10

(c) Tax return submission dates

(i) Paper return: 30 June 2014	1
(ii) Electronic return: 30 September 2014	1
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5 Beautiful Ltd

(a) Value added tax (VAT) return for the quarter ended 30 September 2013

	€	€	
Output VAT			
Standard rated supplies (95% x €30.000 x 18%)	5.130		1
5% rated supplies (95% x €3.000 x 5%)	143		1
		5.273	
Input VAT			
Repairs to the business machinery (€500 x 18/118)	(76)		1
Entertaining a major customer	0		1
Staff party (€300 x 18/118)	(46)		1
Other expenses (€12.400 x 18/118)	(1.892)		1
		(2.014)	
VAT payable		3.259	
Due date for submission of the return: 10 November 2013.			1
			7

		Marks
(b)	Treatment of discount	
	Where a discount is offered, VAT is calculated as if the full discount had been taken by the customer, irrespective of whether the customer does actually take the discount.	1
(c)	Voluntary registration	
	Voluntary registration entitles a business to recover input VAT, which is of particular advantage to a business such as Beautiful Ltd making reduced (or zero) rated supplies but whose inputs are wholly or mainly standard rated.	2
		10